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August 24, 2007

TO: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **EXODUS RECOVERY, INC. CONTRACT COMPLIANCE REVIEW – A DEPARTMENT OF MENTAL HEALTH SERVICE PROVIDER**

We have completed a contract compliance review of Exodus Recovery, Inc. (Exodus or Agency), a Department of Mental Health (DMH) services provider.

Background

DMH contracts with Exodus, a private for-profit community-based organization which provides services to clients in Service Planning Areas 4, 5, 6 and 8. Services include interviewing program clients, assessing their mental health needs, and developing and implementing a treatment plan. The Agency's headquarters is located in the Second District.

Our review focused on approved Medi-Cal billings. DMH paid Exodus between $1.36 and $2.98 per minute of staff time ($81.60 to $178.80 per hour). DMH contracted with Exodus to provide approximately $5.2 million for services for Fiscal Year 2006-07.

Purpose/Methodology

The purpose of the review was to determine whether Exodus provided the services outlined in their contract with the County. We also evaluated whether the Agency achieved planned service levels. Our monitoring visit included reviewing a sample of

Exodus' accounting records and documentation to support the Agency's compliance with the fiscal requirements of its DMH contract. We also selected a sample of Exodus' billings, client charts, and personnel and payroll records to review Exodus' compliance with DMH program requirements. In addition, we interviewed staff from Exodus and a sample of clients or their parents/guardians.

Results of Review

Exodus used qualified staff to perform the services billed and the participants interviewed stated that the services they received met their expectations. However, Exodus did not always comply with the provisions of the DMH contract. For example,

- Exodus did not have a written Cost Allocation Plan that appropriately applied shared costs with other programs.

- Exodus used program funds totaling $2,531 to pay for undocumented and unallowable expenditures.

- The Agency did not always complete Progress Notes and Client Care Plans in accordance with the County Contract.

We have attached the details of our review along with recommendations for corrective action.

Review of Report

We discussed the results of our review with Exodus on June 12, 2007 and again on June 19, 2007. In their attached response, the Agency indicated the corrective actions they plan to take to address the findings in our report. The Agency did not agree that late fees and non-sufficient fund (NSF) charges are unallowable expenses. They believed that late fees from their vendors and NSF charges are allowable as interest costs and the cost of doing business. However, the contract only allows interest expenses and business costs that are necessary and for purposes related to patient care. The late fees and NSF charges incurred by the Agency were unnecessary and did not benefit the clients.

We thank Exodus management for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (626) 293-1102.

JTM:MMO:DC

Attachment

c: William T Fujioka, Chief Executive Officer
Dr. Marvin J. Southard, Director, Department of Mental Health
Luana Murphy, Chief Executive Officer, Exodus Recovery, Inc.
Public Information Office
Audit Committee

CONTRACT COMPLIANCE REVIEW
EXODUS RECOVERY, INC.
FISCAL YEAR 2005-2006

BILLED SERVICES

Objective

Determine whether Exodus Recovery (Exodus or Agency) provided the services billed in accordance with their contract with Department of Mental Health (DMH).

Verification

We judgmentally selected 40 billings totaling 4,575 minutes from 182,559 service minutes of approved Medi-Cal billings to DMH. We reviewed the Assessments, Client Care Plans and Progress Notes maintained in the clients' chart for the selected billings. The 4,575 minutes represent services provided to 22 program participants.

Results

Generally, Exodus maintained documentation to support the minutes billed. However, the Agency did not complete 13 (33%) of the 40 Progress Notes sampled in accordance with the County Contract. Specifically:

- Twelve (60%) of 20 Progress Notes reviewed documenting services with more than one staff present during an intervention did not describe the specific contribution of each staff person.

- None of the Progress Notes reviewed documenting services with more than one client present during an intervention indicated the total number of clients that participated in the group.

- Three (10%) of 20 Progress Notes for Mental Health services reviewed did not describe what the client or service staff attempted and/or accomplished towards the clients' goals.

- Two (20%) of the 10 Progress Notes reviewed for Medication Support notes did not indicate that the client was questioned about side effects, response to medication and medication compliance.

The total number of insufficiently documented Progress Notes cited above exceeded the number of Progress Notes reviewed because some Progress Notes contained more than one deficiency.

Client Care Plans

Exodus also did not complete Client Care Plans for three (14%) of 22 clients sampled in accordance with the County contract. The Client Care Plan establishes goals and interventions that address the Mental Health issues identified in the client's Assessment. Specifically:

- Two Client Care Plans did not contain goals and interventions for each service provided. In addition, two Client Care Plans did not contain specific and measurable/quantifiable goals.

- One Client Care Plan did not contain a signature from the client or parent/guardian indicating their participation in the development of the Client Care Plan.

The total number of incomplete Client Plans cited above exceeded the number of Client Plans reviewed because some Client Plans contained more than one deficiency.

Recommendation

1. Exodus management ensure that Client Care Plans and Progress Notes are completed in accordance with the County contract.

CLIENT VERFICIATION

Objective

Determine whether clients received the services that Exodus Recovery billed DMH.

Verification

We interviewed six participants that the Agency billed DMH for services.

Results

The six program participants interviewed stated that they received services from the Agency and the services met their expectations.

Recommendation

There are no recommendations for this section.

STAFFING LEVEL

Objective

Determine whether the Agency maintained the appropriate staff to client ratios for applicable services.

We did not perform test work in this section as the Agency does not provide services that require staffing ratios for this particular funding program.

STAFF QUALIFICATIONS

Objective

Determine whether Exodus Recovery treatment staff possessed the required qualifications to provide the services.

Verification

We reviewed the California Board of Behavioral Sciences' website and/or the personnel files for 12 of 23 treatment staff.

Results

Each employee possessed the qualifications required to deliver the services billed.

Recommendation

There are no recommendations for this section.

SERVICE LEVELS

Objective

Determine whether Exodus' reported service levels varied significantly from the service levels identified in the DMH contract.

Verification

We obtained the FY 2005-06 Cost Report Exodus submitted to DMH and compared the dollar amount and billed units of service to the contracted units of service identified in the contract for the same period.

Results

Exodus provided the service levels outlined in the County Contract.

Recommendation

There are no recommendations for this section.

CASH / REVENUE

Objective

Determine whether cash receipts and revenue are properly recorded in the Agency's financial records and deposited timely in their bank account. Determine whether there are adequate controls over cash.

Verification

We interviewed Exodus management and reviewed the Agency's records. We also reviewed the Agency's bank reconciliations.

Results

Exodus properly recorded and deposited cash receipts timely. In addition, the Agency prepared monthly bank reconciliations. However, The Agency did not maintain an adequate separation of duties over its cash handling. Specifically, one staff performed the duties of receiving, recording and depositing checks from DMH. In addition, reconciliations were not initialed by the preparer and the reviewer.

Recommendations

Exodus management:

2. **Maintain adequate separation of duties over the handling of cash.**

3. **Ensure that bank reconciliations are signed by the preparer, and reviewed and approved by a manager that does not have cash handling responsibilities.**

EXPENDITURES

Objective

Determine whether the program expenditures were allowable under the County contract, properly documented and accurately billed.

Verification

We reviewed the supporting documentation for a total of 12 expenditures totaling $36,298 from $723,426 charged directly to the mental health program for FY 2005-06.

In addition, we reviewed the expenditure categories listed in Exodus' FY 2005-06 trial balance.

Results

Exodus used program funds totaling $2,531 to pay for undocumented and unallowable expenditures. Specifically:

- The Agency did not provide documentation to support one expenditure for $1,069 related to office supplies.
- One expenditure for $889 was supported by a credit card statement rather than the original receipts. Management subsequently provided receipts to support $589 of the transactions on the credit card statement. However, the Agency was unable to support the remaining expenditure balance of $300.
- One expenditure for office equipment included late charges of $63.
- Exodus charged the program $510 in Non-Sufficient Funds fees.

In addition, we identified the following internal control weaknesses:

- The Agency did not mark invoices "paid" to prevent the same invoice from being paid twice.
- The Agency management did not pre-approve purchases. In addition, the Agency did not match the requisition, original invoice, and receiving report before they paid invoices.

Recommendations

Exodus management:

4. **Maintain original invoices/receipts to support program expenditures.**
5. **Repay the DMH $2,531 for undocumented and unallowable expenses identified in our report.**
6. **Require that invoices or receipts are marked "paid" to prevent duplicate payments.**
7. **Ensure that expenditures are pre-approved by management using a requisition.**

8. **Ensure that prior to payment the accounts payable staff performs a three-way match of the requisition, original invoice and documentation that supports the receipt of goods/services.**

PAYROLL & EMPLOYEE BENEFITS

Objective

Determine whether payroll and employee benefit expenditures charged to the program were appropriate and documented in accordance with the County contract.

Verification

We sampled five of Exodus Recovery's 32 employees and compared payroll information from the payroll register to staff timecards. We also reviewed their personnel files.

Results

The payroll and employee benefits expenditures charged to the program were appropriate and the Agency maintained documentation to support the charges.

Recommendation

There are no recommendations for this section.

FIXED ASSETS AND EQUIPMENT

Objective

Determine whether fixed assets and equipment charged to DMH were used for the mental health program and were safeguarded.

Verification

We interviewed staff and requested a fixed assets and equipment listing.

Results

Exodus did not maintain a complete list of fixed assets and equipment. A proper listing would include the assigned individual, an item description, a serial number, a unique identifier, the acquisition cost, the sources of funding and the program(s) where the asset is used.

Recommendation

9. Exodus management maintain a listing of the Agency's fixed assets and equipment including the assigned individual, an item description, a serial number, a unique identifier, the acquisition cost, the source of funding and the program(s) where the asset is used.

COST ALLOCATION

Objective

Determine whether the Agency's Cost Allocation Plan was prepared in compliance with the County contract and that expenditures were properly allocated to the appropriate programs.

Verification

We reviewed Exodus' Cost Allocation Plan, interviewed management and reviewed the Agency's documentation to support their allocation of indirect costs billed to DMH.

Results

Exodus did not have a written Cost Allocation Plan that appropriately applied shared costs. The Agency's parent company billed DMH program 15% of the maximum contract amount for administrative costs. However, this rate may not reflect the benefits received by the program. Management did not provide the accounting records for the non-DMH operations. Therefore, we were unable to determine the reasonableness of the administrative costs billed to DMH.

Recommendations

Exodus management:

10. Develop a detailed and equitable Cost Allocation Plan and allocate costs on a monthly basis in accordance with the plan.

11. Review FY 2005-06 and 2006-07 costs charged to DMH to ensure all costs were appropriately allocated and resolve any billing discrepancies with DMH.

Attachment

EXODUS RECOVERY, INC.
Administrative Office
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Culver City, California 90232
310/945-3351 Phone
310/840-7023 Fax

July 29, 2007

J. Tyler McCauley
Auditor-Controller
County of Los Angeles, Department of Auditor-Controller
Kenneth Hahn Hall of Administration
500 West Temple Street, Room 525
Los Angeles, California 90012-2706

Mr. McCauley:

We would like to thank your staff for their professionalism and helpfulness during this compliance review process. We have reviewed the recommendations and the following is our response and plan of correction as applicable:

Recommendations:

BILLED SERVICES

#1 - Exodus management will ensure that Client Care Plans and Progress Notes are completed in accordance with the County contract.

- *Twelve Progress Notes with more than one staff did not describe the specific contribution of each staff present:* There were two types of multi-staff notes – Med Support and Group. In preparation for the audit, we changed the documenting of the Med Support note, having a separate note for the psychiatrist and the nurse. The group notes involved MFT Trainees where a licensed staff was present at all times as noted in the co-signatures and staff codes on each note. Staff have been instructed to start each group note with the name of the individuals co-facilitating the group along with the co-signatures and initials of 2nd staff next to their time in the left column.

- *Group Notes did not indicate total number of clients in group:* At the conclusion of the audit staff were reminded to document total number of clients in their group note.

- *Three Progress Notes did not did not describe what the client or service staff attempted and/or accomplished towards the clients' goals:* Staff have been re-instructed to clearly document step being taken towards Goal, Intervention taken, client Response and follow-up Plan in each note.

- *Two Med Support Progress Notes did not indicate client was questioned about side effects, response to medication and medication compliance:* Our psychiatrist was accustomed to inpatient charting in which only negative outcomes are documented. He was reminded to document side effects, response and compliance in each note.

- *Two Client Care Plans did not contain goals and interventions for each service provided. In addition, two Client care Plans did not contain specific and measurable/quantifiable goals:* Exodus staff were trained by DMH personnel to keep goals broad to cover multiple service delivery methods and Reviewers indicated that scope should be narrowed. Two goals listed a percentage and staff should have used a number instead. Staff re-educated on appropriate goal documentation.

- *One Client Care Plan did not contain a signature from the client or parent/ guardian indicating their participation in the development of the Client Care Plan:* All staff have been reminded to document client refusal/unavailability to sign Care Plan.

CASH/REVENUE

#2 – Maintain adequate separation of duties over the handling of cash.

- We realize that separation of duties is a desirable aspect of internal control. One month before the audit and just at the contract year-end our part-time bookkeeper went out on a worker's compensation leave. It was critical that the accounting function continue to get completed in a timely manner. Due to the size of our contract it is impractical and not economically feasible to always assign tasks in such ways as to separate all key functions from each other. We have since replaced the position and strive to keep cash handling separated.

#3 – Ensure the bank reconciliations are signed by the preparer, and reviewed and approved by a manager that does not have cash handling responsibilities.

- Due to the size of our organization we only have one person responsible for preparing the bank reconciliation and one person was the single reviewer who does not have cash handling responsibilities. Following the audit, we implemented the initialing of the bank reconciliation by the preparer and reviewer as recommended.

EXPENDITURES

#4 – Maintain original invoices/receipts to support program expenditures.

#5 – Repay DMH $2,531 for undocumented and unallowable expenses identified in our report.

- All of the expenditures listed in this section as findings were allowable DMH expenses. We lost our bookkeeper shortly before the audit. In addition we hire a client in a part-time work arrangement to do our filing for us. We have the following comments on the exceptions listed by the auditor.

    1. We are still looking for the original invoice related to the office supplies.

2. As noted by the auditor we supported $589 of an $889 credit card statement with original invoices. Some of our invoices were filed at the program sites and some were filed at the central office accounting department. We were not aware of the original invoice requirement prior to the Auditor Controller audit. In most if not all other areas of government copies, faxes or digitally scanned replicas are acceptable documentation as long as the items being paid for can be reasonably determined.
3. The auditor listed a $63 late fee from an office equipment payment as non-allowable. Late fees and service charges on vendor payments are an assessment of interest by the vendor. Interest is an allowable expense as defined the CMS Manual Publication 15 Part 1 Chapter 2.
4. The auditor listed Non-Sufficient Funds fees of $510 as non-allowable. These fees are bank fees and fully allowable just like the monthly bank fees. Bank fees are a cost of doing business. The auditor has listed no regulatory reference as to why these are non-allowable. The auditor does not manage County contracts and does not understand the day to day pitfalls involved in doing so. Our employees expect to get paid every two weeks regardless of whether our County check comes on time. We do our best to manage the resources so as to avoid these fees but we cannot always control every aspect of our cash flow such as our County check being stolen out of the mail, our new bank out of the blue deciding to hold our County check, etc.

#6 – Require that invoices or receipts are marked "paid" to prevent duplicate payments.

- At the time of the audit and in continued practice today, we use voucher checks and the payment stub is stapled to the applicable invoice(s) as proof of payment. We have implemented the auditor's recommendation to stamp invoices paid at the end of our payment process.

#7 – Ensure that expenditures are pre-approved by management using a requisition.

- Whenever possible, we ensure that there is a written authorization for expenditures however, from time to time due to a specific need, verbal authorization is given. We will strive to make a notation on the payment document that verbal authorization was obtained and by whom.

#8 – Ensure that prior to payment the accounts payable staff performs a three-way match of the requisition, original invoice and documentation to support the receipt of goods/services.

- We have also implemented some matching process to our accounts payable process where it is economically feasible to do so.

FIXED ASSETS AND EQUIPMENT

#9 – Exodus management maintain a listing of the Agency's fixed assets and equipment including description, unique identifier, assigned individual and the program where the asset is used.

- The auditor is correct that we did not inventory fixed assets. Up until this contract year our total fixed assets consisted of about $13,000 of used furniture purchased in 1997. We did not feel it was a cost effective use of our staff time and contract resources to inventory such old and low value assets. Our computers and office equipment is leased and those serial numbers and locations are listed in the lease documents.
- Starting this year we have purchased several pieces of new equipment that is paid for by contract funds. We have implemented an inventory system to monitor this new equipment as the auditor suggested.

COST ALLOCATION

#10 – Develop a detailed and equitable cost allocation plan and allocate costs on a monthly basis in accordance with the plan.

- We are in the process of developing a written cost allocation plan for future years. Our previous cost allocation plan included internal allocations within the DMH program and we are expanding it to include all cost allocations.

- We do not believe monthly allocations are feasible. We intend to use estimates during the year and review the allocations at the end of the year prior to finalizing our accounting records and filing the cost report.

#11 – Review FY2005-06 and 2006-2007 costs charged to DMH to ensure all costs were appropriately allocated and resolve the billing discrepancies with DMH.

- We have reviewed the FY 2005-2006 and we will make every effort to ensure that FY 2006-2007 costs, upon FY07 Cost Report preparation, are properly allocated and there are no billing discrepancies with DMH.

Please feel free to contact me at the above listed numbers if you have any additional questions or require further clarification.

Sincerely,

Luana Murphy, MBA
Chief Executive Officer

LM:las